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AUGUST 1989
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Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Clifton reviews first T.I.D.C.

Nick Brown
Service Sales Corp.
Randolph, MA

Updated training helps sales grow

How to build better business relationships

Grainger to acquire Vonnegut

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 8 AUGUST 1989 A CAHNERS PUBLICATION

Nick Brown pursues suppliers aggressively to get his people the sales and product training they need.

Cover photography by Dave Bradley

SELLING

24 Sales training + partnering = sales growth

Distributors and manufacturers, working together, have devised programs that help sales staffs mix the right selling skills with needed product know-how.

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Being candid—early, often, at all levels, and on all issues—is a tactic distributors and manufacturers recommend for long-term, productive and profitable relationships.

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Canadian membership in I.D.A. and foreign supplier participation in the venerable I.D.C. *Booth Program* are only two signs of distribution's expanding horizons.

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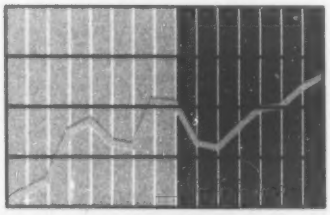

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BUSINESS REPORT

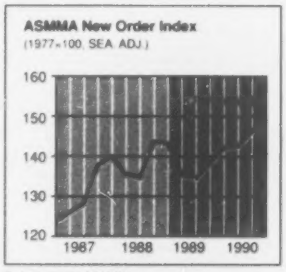
BY KRIS BLEDOWSKI

Moderate growth forecast for 1990

Interest rates and wages will stimulate output

As the first half of the year came to a close, there were indications that that interest rates have peaked and are beginning to decline. Three-month Treasury bills have dropped one half of a percentage point over the past two months. So far, favorable trends in the financial markets have not stimulated the real sector. On the contrary, employment growth has slowed down, retail sales and industrial production have been flat, and housing starts have been the worst in years.

These favorable conditions in the financial markets will translate into gains in the real sector with some lag. Vigorous growth in economic activity this year will give way to slower growth in 1990.



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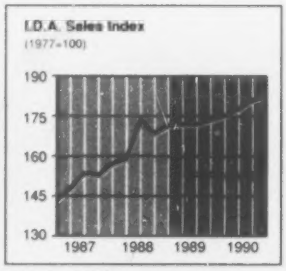
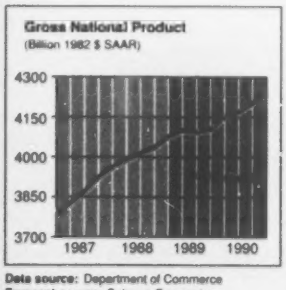


Data source: I.D.A.
Forecast source: Cahners Economics

Our own forecast calls for 2.5% real growth in the economy this year on an annual basis, and 2.2% growth next year. Even though one might interpret this as a drift downward, the numbers show significant improvement in virtually all areas of the economy during the first half of 1990 as compared to the last half of this year. Business investment and exports will also improve.

In addition to lower cost of capital, the cost of labor has also been growing less rapidly. In spite of indications that the labor pool is shrinking—particularly in entry-level positions—increases in employee compensation have been moderate. The employment cost index, which measures monthly wage and benefit cost increases in manufacturing, increased by an annualized rate of only 3.7% during the past 12 months. At this time last year, the index was up 4.7%. Inflation-adjusted employee compensation was actually down 0.5% during the first quarter. Wage costs for all workers in goods producing industries rose only 3.1% during the past year, down slightly from last year's 3.4% increase. Wage costs for union labor increased at an even slower rate of 2.5%—about half the rate of increase for non-union workers. These mild gains for union labor in fact account for nearly all of the moderation shown in compensation this year.

All this indicates that moderate increases in prices of productive factors will further stimulate output in manufacturing in 1990-1991. Growth is bound to be modest, but no recession or inflationary spiral is likely. □



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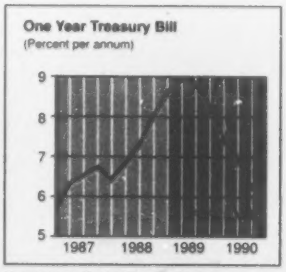

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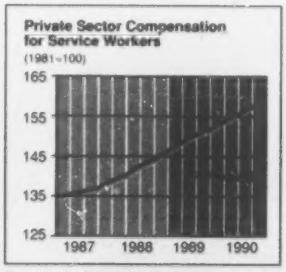

Data source: Bureau of Labor Statistics
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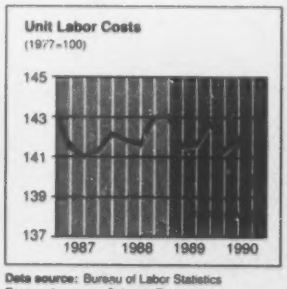


Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

(1977=100)	SALES May 1989	SALES Apr.. 1989	SALES May '89 vs May '88 % change	RECEIVABLES May 1989 days	INVENTORY May 1989 % increase	INVENTORY May 1989 % decrease
TOTAL	184.4	207.1	13.6	44	4.3	4.8
EAST	158.6	184.3	16.8	54	4.1	5.4
SOUTH	200.3	283.7	-2.2	35	5.0	4.9
CENTRAL	174.4	172.7	32.9	40	4.1	4.8
WEST	228.7	241.6	20.1	56	4.3	4.3

SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

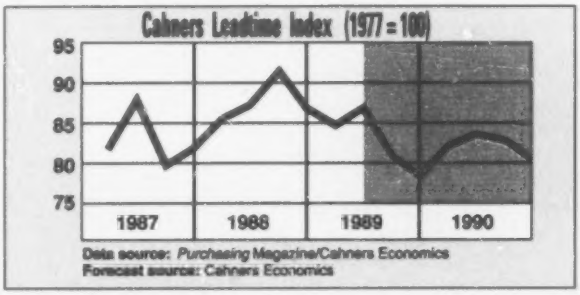
BY KRIS BLEDOWSKI

OEM inventories starting to rise

Intermediate materials are also high

Changes in inventory are important variables to watch when predicting turning points of a business cycle. Rising stocks of inventory can be attributed either to anticipation of future sales or to signs of excess supply.

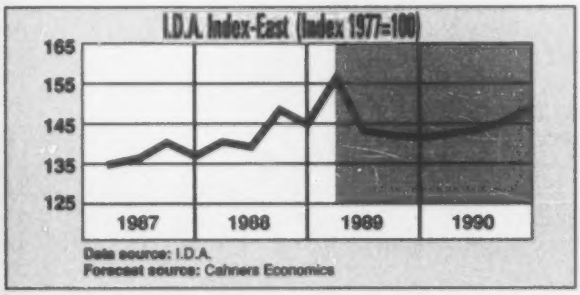
Inventories in the OEM sector are now rising. This rise comes after two years of inventories being kept fairly stable. In fact, when factoring inflation in, a real stock of goods produced but not sold may have actually declined. For example, in current dollars, inventories of fabricated metals declined 1.5% in 1986 and rose only 0.6% the following year, while stocks of nonelectrical machinery declined 8.2% and 4.8%, respectively.

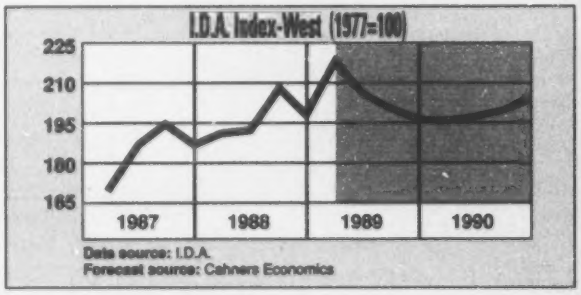


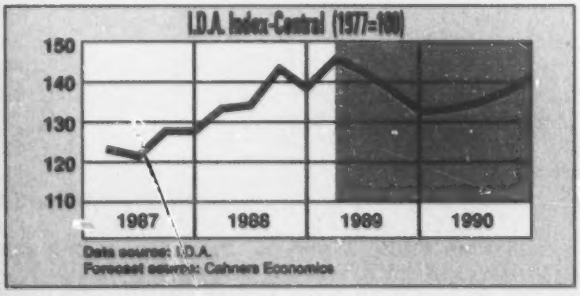
These dwindling stocks of inventory did not lead to a recession because shipments were booming, stimulated by foreign demand and capital spending at home. Consequently, the inventory-shipments (I/S) ratio (number of months it takes to liquidate the stocks) fell, from about 2.3 in March 1986 to 2.0 in December 1988. Inventory levels gained dramatically in the first four months of this year. However, this increase was accompanied by flat shipments. This sent the I/S ratio sharply higher.

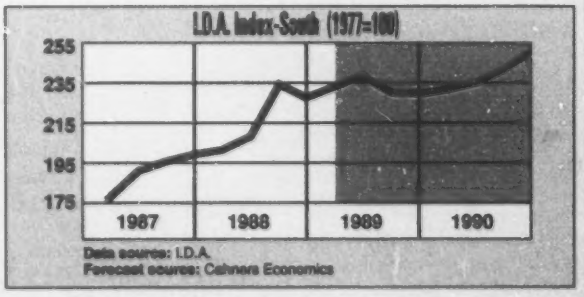
Our forecast calls for continued high levels of inventory in all OEM sectors through the end of the year, while shipments are bound to gain only marginally. As a result, the I/S ratio will climb more than 3.0% in 1989. In particular, look for continued high inventories of fabricated metals and instruments.

I.D.A. members' sales have been very volatile lately, with monthly figures oscillating 20% or more. The general upward trend will come to an end, however. Last year's national sales' gain of 10% will dwindle to 4.8% this year. The South will fare the best with a 6.9% increase, followed by West with 3.9%. East and Central will finish off 1.7% higher than in the previous year. □





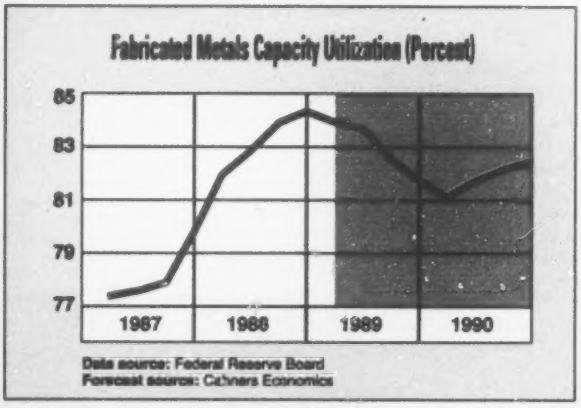




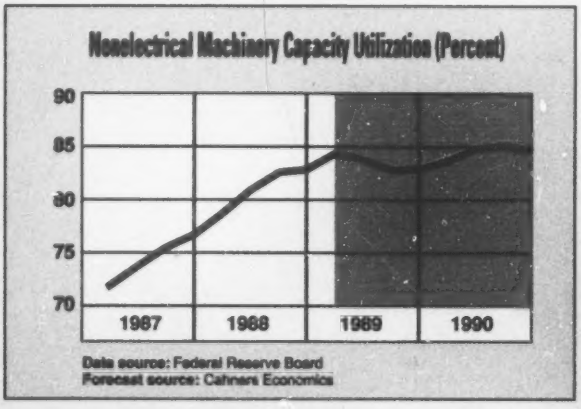
SUPPLY OUTLOOK

Prices to rise over next two years

There are numerous indications that the economy is slowing down as previously forecasted. Industrial production has been flat for five months and capacity utilization is on the decline. At the same time, domestic demand is slowing while export sales have been gaining in spite of the ever stronger dollar. Inflation will not get out of hand, price will continue to rise to the tune of 5% per year for the next two years. The index for finished goods less food will advance 4.6% in 1989. One booming sector is durable capital goods. The demand for new equipment will stay high in spite of slower growth.



Utilization rates for fabricated metals have been dropping consistently since late last year and will fall further.



Capacity rates in the nonelectrical machinery sector have been gaining due to strong demand for capital goods.

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